

## **Introductory Section**

**City of Rockville, Maryland**

**Comprehensive**

**Annual Financial Report**



**Prepared by:**  
**Department of Finance**

**Donna J. Boxer**  
**Director**

**Fiscal Year 2003**  
**July 1, 2002 - June 30, 2003**

**THIS PAGE NOT USED**

CITY OF ROCKVILLE, MARYLAND  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
JUNE 30, 2003

TABLE OF CONTENTS

PART I - INTRODUCTORY SECTION

	Page
Title Page .....	
Table of Contents .....	3-4
List of Elected and Appointed Officials .....	5
Letter of Transmittal.....	6-9
Organizational Chart .....	10

PART II - FINANCIAL SECTION

Independent Auditors' Report .....	11-12
Management's Discussion and Analysis.....	13-20
Basic Financial Statements:	
Government –wide Financial Statements:	
Statement of Net Assets .....	21
Statement of Activities .....	22
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	23
Reconciliation of Total Government Fund Balances to Net Assets of Government Activities .....	24
Statement of Revenues, Expenditures, And Changes in Fund Balances-Governmental Funds .....	25
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	26
Statement of Net Assets-Proprietary Funds .....	27
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds .....	28
Statement of Cash Flows – Proprietary Funds.....	29-30
Statement of Fiduciary Net Assets – Pension Trust Funds.....	31
Statement of Changes in Fiduciary Net Assets – Pension Trust Funds.....	32
Notes to the Financial Statements.....	33-50
Required Supplementary Information:	
Public Employee Retirement System .....	51
Budgetary Comparison Schedule – General Fund .....	52
Budgetary Comparison Schedule – Debt Service Fund.....	53
Notes to the Required Supplementary Information.....	54
Supplementary Information - Combining and Individual Fund Statements and Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds .....	55
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	56
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Nonmajor Governmental Funds .....	57
Combining Statement of Net Assets – Nonmajor Proprietary Funds .....	59
Combining Statement of Revenue, Expenses, and Changes in Net Assets – Nonmajor Proprietary Funds .....	60
Combining Statement of Cash Flows – Nonmajor Proprietary Funds.....	61-62

CITY OF ROCKVILLE, MARYLAND

COMPREHENSIVE ANNUAL FINANCIAL REPORT

JUNE 30, 2003

**PART III - STATISTICAL SECTION**

Government-wide Information:

Government-wide Expenses by Function.....	63
Government-wide Revenues.....	64

Fund Information:

General Governmental Expenditures by Function – Last Ten Fiscal Years.....	65
General Governmental Revenue by Source – Last Ten Fiscal Years.....	66
Property Tax Levies and Collections - Last Ten Fiscal Years.....	67
Assessed and Estimated Actual Value of Taxable Property - Last Ten Fiscal Years .....	68
Property Tax Rates and Tax Levies – Direct and Overlapping Governments – Last Ten Fiscal Years .....	69
Special Assessment Billings and Collections – Last Ten Fiscal Years .....	70
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita – Last Ten Fiscal Years .....	71
Computation of Direct and Overlapping Debt.....	72
Ratios of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures –Last Ten Fiscal Years.....	73
Ten Largest Taxpayers – Corporation Personal Property Taxes.....	74
Ten Largest Taxpayers – Corporation Real Property Taxes.....	75
Economic and Demographic Statistics.....	76
Construction, Bank Deposits, and Property Value – Last Ten Fiscal Years .....	77
Miscellaneous Statistical Facts.....	78

**CITY OF ROCKVILLE, MARYLAND**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
**JUNE 30, 2003**

**MAYOR**

**Larry Giammo**

**COUNCIL MEMBERS**

**Robert E. Dorsey**  
**Anne M. Robbins**

**John F. Hall, Jr.**  
**Susan R. Hoffmann**

**CITY MANAGER**

**W. Mark Pentz**

**DIRECTOR OF FINANCE**

**Donna J. Boxer**

**CITY CLERK**

**Claire F. Funkhouser**

October 31, 2003



Honorable Mayor and Members of the City Council  
City of Rockville, Maryland

State law requires that all general purpose local governments publish within four months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report for the City of Rockville, Maryland, for the year ended June 30, 2003.

This report consists of management's representations concerning the finances of the City of Rockville. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Rockville has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Rockville's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Rockville's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Rockville's financial statements have been audited by McGladrey and Pullen, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Rockville for the fiscal year ended June 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Rockville's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Rockville was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Rockville's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Rockville's MD&A can be found immediately following the report of the independent auditors.

The City of Rockville, Maryland, was incorporated in 1860. Its legal authority is derived from Article XI E of the State Constitution and Article 23A of the Annotated Code of Maryland. Rockville has an estimated population of 52,401 and a land area of 13.50 square miles. According to the 2000 census, Rockville is the fifth largest city in Maryland. The City has operated under the council-manager form of government since 1948. The City is a municipal corporation where the City Council is comprised of a mayor and four at-large members, who are elected for two year terms.

#### PROFILE OF THE GOVERNMENT

The City of Rockville is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs





periodically when deemed appropriate by the Mayor and Council. The Mayor and Council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the city manager and attorney. The city manager is responsible for carrying out the policies and ordinances of the Mayor and Council, for overseeing day-to-day operations of the government, and for appointing the heads of the various departments.

The City of Rockville provides a full range of services, including water, sewer, refuse, streets and drainage, recreation and parks, police, planning and zoning, community development and community services. Schools, libraries, social services and fire protection are provided by Montgomery County, Maryland.

The City Charter requires the city manager to submit a budget to the Mayor and Council at least one month before the beginning of each fiscal year. In addition to the operating budget, a six-year capital improvements plan is presented for the Council's review. Each department and agency prepares its own budget request for the city manager's review. The Mayor and Council schedules and publishes advance notices of public hearings. The budget is approved in the form of an appropriations ordinance. During the year, the city manager has authority to transfer budgeted amounts between departments within any fund, but changes in the total appropriation level for a given fund can be enacted only by the Mayor and Council through a budget amendment ordinance.

As a management policy, budgetary control is maintained in the General, Special Revenue and Enterprise funds at the character level within departments by the encumbrance of estimated purchase amounts prior to the release of purchase orders to vendors. Purchase orders, which result in overruns of balances, are not processed until sufficient appropriations are made available. In the Capital Projects Fund, similar procedures are followed, but the level of control is at the project level. For all other funds, appropriation control is at the fund level.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the general fund, this comparison is presented on page 52 as part of the required supplementary information section for the governmental funds. For governmental funds, other than the general fund, with appropriated annual budgets, these comparisons are presented on pages 53 and 57.

#### FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Rockville operates.

#### LOCAL ECONOMY

The City of Rockville currently enjoys a favorable economic environment and local indicators point to continued stability. The region has a firm employment base that adds to the relative stability of the unemployment rate. Major industries with headquarters or divisions located within the government's boundaries or in close proximity include computer hardware and software manufacturers, bio-tech and several financial institutions.

The city has an employed labor force of approximately 73,179. Rockville has experienced substantial residential and commercial growth in recent years and this growth is expected to continue with the redevelopment of the Town Center.

#### FY 2003 HIGHLIGHTS

- Following their election in November 2001, the Mayor and Council developed a strategic plan based on five goals to be addressed during their term: a vibrant Town Center; better mobility; superior City services; strengthened neighborhoods; and community identity and pride.
- During the fiscal year, the public-private partnership was established for the development of the Town Center as a mixed-use downtown of residential, office, retail, entertainment and restaurant space. The development will





include 184,000 square feet of restaurant and retail space, 665 to 775 dwelling units, a new regional library and a cultural arts facility.

- The City continued to protect neighborhoods and protect Rockville's past by moving to designate as "historic" more homes and properties that are 50 years and older.
- A pedestrian safety plan was established and various measures were taken to implement this plan, such as use of speed indicator signs and the installation of cameras to discourage red-light runners.
- The City began the work of updating long-term plans for the East Rockville and Lincoln Park neighborhoods.
- During FY 2003, nearly 200,000 square feet of new retail space was built, including: Clyde's Restaurant on Preserve Parkway (22,000 square feet); and Village Center at Falls Grove (140,000 square feet).
- Approximately 900,000 square feet of new office space was constructed during the year, including Foulger Pratt Metro Plaza (220,000 square feet); 1 Research Court (116,000 square feet); 2099 Gaither Road (130,000 square feet); and 3 Irvington Center at the King Farm (240,000 square feet).
- A total of 1,366 residential units were constructed during the year, including 135 single-family units, 301 townhouse units and 930 multifamily units. The bulk of the units were constructed at King Farm and Falls Grove.
- The City sold tax-exempt bonds in the amount of \$28 million during the year. About half of this amount was used to refund existing debt in order to achieve a lower interest rate. The interest rate for the 20-year bonds for new projects was 3.27 percent and the rate for the 10-year refunding bonds was 1.92 percent. These excellent rates will result in total savings of \$1.7 million on the refunded debt over a 10-year period.

## **CASH MANAGEMENT**

The City believes strongly in making the best possible use of idle cash resources. Essentially, all cash (other than that in the pension fund) is pooled into one operating account. Maturity mixes in investment portfolios are staggered to assure that funds are available as needed to meet disbursement requirements as well as to take advantage of market fluctuations in order to maximize financial return within the parameters of acceptable risk. Interest earned by the City's general investment portfolio totaled \$363,302 for an average rate of return of 1.16 percent. The average daily investment portfolio was \$31,447,605. The Principal Mutual Life Insurance Company manages the pension fund assets, which earned \$1,925,430 or 3.94% in fiscal year 2003.

To further enhance its cash management program, the City maintains a comprehensive banking services agreement with SunTrust Bank, Maryland. Services provided include a concentration account for automatic investment of idle funds, zero balance and controlled disbursement accounts, wire transfer services, fully automated account reconciliations, and automated lockbox operations (payment processing for utility bills and red-light camera violations). The concentration of accounts enables the City to fulfill its policy objective of ensuring that all deposits are collateralized or insured.

## **RISK MANAGEMENT**

The City is a member of the Montgomery County self-insurance plan. The City is insured for comprehensive general liability, including errors and omissions, comprehensive auto liability, property damage for the vehicular fleet, fidelity bond coverage and worker's compensation, up to \$6 million on a per claim basis, with an aggregate deductible plan of \$6 million per year.

## **PENSION AND OTHER POSTEMPLOYMENT BENEFITS**

The City of Rockville sponsors a single-employer defined benefit pension plan and one defined contribution plan for its employees. Each year, an independent actuary engaged by the pension plan calculates the amount of the annual contribution that the City of Rockville must make to the pension plan to ensure that the plan will be able to fully meet its obligations to retired employees on a timely basis. As a matter of policy, the City of Rockville, Maryland fully funds each year's annual required contribution to the pension plan as determined by the actuary.



The City of Rockville also provides postretirement health benefits for certain retirees and their dependents. As of the end of the current fiscal year, there were 34 retired employees receiving these benefits, which are financed on a pay-as-you-go basis. GAAP do not require governments to report a liability in the financial statements in connection with an employer's obligation to provide these benefits.

Additional information on the City of Rockville's pension arrangements and postemployment benefits can be found in Notes 3 (c) and 3 (d) to the financial statements and in the required supplementary section, page 51.

#### AWARDS AND ACKNOWLEDGEMENTS


The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Rockville for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2002. This was the 13th consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.


A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

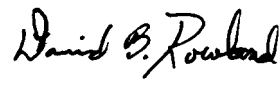
In addition, the government also received the GFOA's Distinguished Budget Presentation Award for its annual budget document for the fiscal year beginning July 1, 2003. In order to qualify for the Distinguished Budget Presentation Award, the government's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide and a communications device.

This report could not have been prepared without the dedicated cooperation of the entire staff of the Finance Department. Special recognition is extended to Fran Jablonski, Tim Peifer, Susan Lander, Wanda Roelkey, Jen Frank, Whitney Coleman, Nancy Zombolas and Carlton Barclay for the sense of commitment they displayed throughout the preparation process. We also would like to express our appreciation to the Mayor and Council for their interest and support in planning and carrying out the City's financial operations in a responsible, progressive fashion.

Respectfully submitted,

  
W. Mark Pentz  
City Manager

  
Donna J. Boxer  
Director of Finance

  
David B. Rowland  
Controller



# City of Rockville Organizational Chart

November 2003

